

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Iron River Housing Commission	County Iron
Fiscal Year End 12-31-05	Opinion Date 9-11-2006	Date Audit Report Submitted to State 9-30-2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

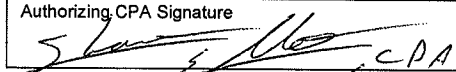
YES NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	n/a	
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-774-4300	
Street Address Po Box 828		City Iron Mountain	State MI
		Zip 49801	
Authorizing CPA Signature 		Printed Name Shane M. Ellison, CPA	License Number 263063

**IRON RIVER HOUSING COMMISSION**

**REPORT ON FINANCIAL STATEMENTS**

(with supplemental information)

For the Year Ended December 31, 2005

# IRON RIVER HOUSING COMMISSION

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**ANDERSON, TACKMAN & COMPANY, P.L.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

*A Regional Firm with Offices in Michigan and Wisconsin*

Principals - Iron Mountain:  
L. Robert Schaut, CPA  
David J. Johnson, CPA  
Shane M. Ellison, CPA

Member of:  
Private Companies Practice Section  
American Institute of Certified  
Public Accountants

**INDEPENDENT AUDITORS' REPORT**

Board of Commissioners  
Iron River Housing Commission  
Iron River, Michigan

We have audited the accompanying financial statements of the business-type activities of the Iron River Housing Commission as of and for the year ended December 31, 2005, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Iron River Housing Commission as of December 31, 2005, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2006 on our consideration of the Iron River Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Iron River Housing Commission's basic financial statements. The Financial Data Schedule is presented for the purpose of additional analysis as required by the U.S. Department of Urban Housing and Development and is not a required part of the basic financial statements. The Financial Data Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in dark ink, appearing to read "Anderson, Tackman & Co. PLC". The signature is stylized and cursive.

ANDERSON, TACKMAN & COMPANY, PLC  
Certified Public Accountants  
Iron River, Michigan

September 11, 2006

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Iron River Housing Commission's financial performance provides an overview of the financial activities for the year ended December 31, 2005. Please read it in conjunction with the Commission's financial statements, which begin on page 9.

### FINANCIAL HIGHLIGHTS

- Net assets for the entire Commission were \$531,555 at December 31, 2005 compared to \$531,014 at December 31, 2004.
- The Commission's operating revenues totaled \$145,751 for December 31, 2005 and \$155,640 for December 31, 2004, while operating expenses totaled \$149,808 for December 31, 2005 and \$147,840 for December 31, 2004.

### USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows (on pages 9 to 12) provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

### REPORTING THE COMMISSION AS A WHOLE

Our analysis of the Commission as a whole begins on page 9. One of the most important questions asked about the Commission's finances is "Is the Commission, as a whole, better off or worse off as a result of the year's activities"? The Statement of Net Assets, Statement of Activities, and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Commission's *net assets* and changes in them. You can think of the Commission's net assets – the difference between assets and liabilities – as one way to measure the Commission's financial health, or *financial position*. Over time, *increases or decreases* in the Commission's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the population of low income and elderly individuals.

In the Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses, and Change in Net Assets, and the Statement of Cash Flows, the Commission's activities are reported as business-type activities:

- Business-type activities – The Commission charges rent to tenants to help cover all or most of the costs of services it provides.

## REPORTING THE COMMISSION'S MOST SIGNIFICANT FUNDS

Our analysis of the Commission's major activities begins on page 9. The financial statements provide detailed information on all of the Commission's activities. The Commission uses proprietary funds to account for its activities. The method of accounting for proprietary funds is explained below.

- *Proprietary funds* – The Commission charges tenants rent for the housing services it provides and these services are reported in a proprietary fund. Proprietary funds are reported in the same way for its activities and are reported in the Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets.

## THE COMMISSION AS A WHOLE

The Commission's combined net assets at December 31, 2005 increased \$541 from December 31, 2004.

**Table 1**

### NET ASSETS

	December 31,	
	2005	2004
<b>Assets</b>		
Current assets	\$ 204,267	\$ 227,252
Capital assets (net)	343,639	317,826
Total assets	547,906	545,078
<b>Liabilities</b>		
Current liabilities	16,351	14,064
Total liabilities	16,351	14,064
<b>Net Assets</b>		
Invested in capital assets, net of related debt	343,639	317,826
Unrestricted	187,916	213,188
Net Assets	\$531,555	\$ 531,014

Net assets of the Commission stood at \$531,555 at December 31, 2005 compared to \$531,014 at December 31, 2004. Unrestricted net business assets were \$187,916 compared to \$213,188 at December 31, 2004. In general, the Commission's unrestricted net assets are used to fund operations of the Commission.

**Table 2****CHANGE IN NET ASSETS**

	<u>Year Ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 74,068	\$ 73,721
Program grants and subsidies	71,010	80,986
General revenues:		
Other revenues	673	933
Unrestricted investment earnings	<u>4,598</u>	<u>1,783</u>
 Total revenues	 150,349	 157,423
 <b>Program Expenses:</b>		
Operating expenses	<u>(149,808)</u>	<u>(147,840)</u>
 Change in net assets	 541	 9,583
 Net assets - beginning of period	 <u>531,014</u>	 <u>521,431</u>
 Net assets - end of period	 <u>\$ 531,555</u>	 <u>\$ 531,014</u>

**BUSINESS – TYPE ACTIVITIES**

Revenues for the Commission totaled \$150,349 compared to \$157,423 during December 31, 2004. The Commission's average unit months leased on a monthly basis had decreased during the current year. In addition, HUD operating funds and capital funding grants had decreased during the current year. The Commission depends on HUD operating and capital grants to assist in covering its operating expenses.



## **CAPTIAL ASSETS**

### **Capital Assets**

The Commission had \$1,015,269 invested in a variety of capital assets including land, equipment and buildings at December 31, 2005 compared to \$961,172 at December 31, 2004.

**Table 3**

### **CAPITAL ASSETS Business - Type Activity**

	December 31,	
	2005	2004
Land and improvements	\$ 56,014	\$ 56,014
Building and improvements	914,725	858,314
Equipment	<u>44,530</u>	<u>46,844</u>
Total	1,015,269	961,172
Less accumulated depreciation	<u>(671,630)</u>	<u>(643,346)</u>
NET CAPITAL ASSETS	<u>\$ 343,639</u>	<u>\$ 317,826</u>

The Commission invested \$58,124 in capital assets during the year ended December 31, 2005.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Commission's appointed officials considered many factors when setting the budget for the calendar year 2006. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts. In the upcoming year, we do not anticipate any significant change in the occupancy rate and availability of new tenants that will provide any substantial increase in revenues. There continues to be a variety of inflationary cost and expense issues out of the control of the Commission. All of these were taken into consideration during the 2006 budget process.

### **CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the readers with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Commission's Executive Director, Jane Gustafson, at 236 N 3<sup>rd</sup> Avenue, Iron River, Michigan 49935, or call 906-265-4398.

**IRON RIVER HOUSING COMMISSION**

**STATEMENT OF NET ASSETS**  
**Proprietary Fund**

December 31, 2005

**CURRENT ASSETS:**

Cash and equivalents	\$ 49,535
Accounts receivable	852
Investments	148,606
Prepaid expenses	<u>5,274</u>

TOTAL CURRENT ASSETS	<u>204,267</u>
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**NONCURRENT ASSETS:**

Capital assets	1,015,269
Less accumulated depreciation	<u>(671,630)</u>

NET CAPITAL ASSETS	<u>343,639</u>
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TOTAL ASSETS	<u>547,906</u>
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**CURRENT LIABILITIES:**

Accounts payable	6,054
Accrued liabilities	<u>10,297</u>

TOTAL CURRENT LIABILITIES	<u>16,351</u>
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**NET ASSETS:**

Investment in capital assets, net of related debt	343,639
Unrestricted net assets	<u>187,916</u>

NET ASSETS	<u>\$ 531,555</u>
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The accompanying notes to financial statements are an integral part of this statement.

**IRON RIVER HOUSING COMMISSION**

**STATEMENT OF ACTIVITIES**

For the Year Ended December 31, 2005

FUNCTIONS/PROGRAMS	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
BUSINESS-TYPE ACTIVITIES:				
Public Housing	\$ 149,808	\$ 74,068	\$ 71,010	\$ -
				\$ (4,730)
General revenues:				
Unrestricted investment earnings				4,598
Other				673
Total general revenues				5,271
Change in net assets				541
NET ASSETS, beginning of year				531,014
NET ASSETS, end of year				\$ 531,555

The accompanying notes to the financial statements are an integral part of this statement.

**IRON RIVER HOUSING COMMISSION**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE  
IN NET ASSETS  
Proprietary Fund**

For the Year Ended December 31, 2005

OPERATING REVENUES:

Tenant revenue	\$ 74,068
Program grants-subsidies	71,010
Other income	<u>673</u>

TOTAL OPERATING REVENUES	<u>145,751</u>
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OPERATING EXPENSES:

Administration	35,598
Tenant services	737
Utilities	38,672
Maintenance	34,703
General	7,605
Extraordinary maintenance	182
Depreciation	<u>32,311</u>

TOTAL OPERATING EXPENSES	<u>149,808</u>
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OPERATING (LOSS)	(4,057)
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NONOPERATING REVENUES AND (EXPENSES):

Interest income	<u>4,598</u>
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CHANGE IN NET ASSETS	541
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NET ASSETS, BEGINNING OF YEAR	<u>531,014</u>
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NET ASSETS, END OF YEAR	<u><u>\$ 531,555</u></u>
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# IRON RIVER HOUSING COMMISSION

## STATEMENT OF CASH FLOWS Proprietary Fund

For the Year Ended December 31, 2005

### CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 74,068
Cash received from grants and subsidies	71,010
Cash payments to suppliers for goods and services	(77,700)
Cash payments for wages and related benefits	(35,155)
Cash payments for payment in lieu of taxes	(3,675)
Other receipts	673

NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>29,221</u>
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### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of capital assets	<u>(58,124)</u>
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NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(58,124)</u>
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### CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of investments	(148,606)
Investment income	<u>4,417</u>

NET CASH (USED) BY INVESTING ACTIVITIES	<u>(144,189)</u>
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NET (DECREASE) IN CASH AND EQUIVALENTS	(173,092)
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CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>222,627</u>
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CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 49,535</u>
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### RECONCILIATION OF OPERATING INCOME TO NET

#### CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income (loss)	\$ (4,057)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	32,311
Changes in assets and liabilities:	
Decrease (Increase) in prepaid expenses	(1,320)
Increase (Decrease) in accounts payable	1,523
Increase (Decrease) in accrued liabilities	<u>764</u>

NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>\$ 29,221</u>
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The accompanying notes to financial statements are an integral part of this statement.

## IRON RIVER HOUSING COMMISSION

### NOTES TO FINANCIAL STATEMENTS

December 31, 2005

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### THE REPORTING ENTITY

The Iron River Housing Commission (Commission) was formed by the Iron River City Commission under Public Act 18 of 1933 of the State of Michigan. The Commission operates under a Board of Commissioners appointed by the City of Iron River.

The Commission manages 31 units of low rent public housing units of which, for financial reporting purposes, includes all of the activities relevant to its operations.

##### Component Unit

In evaluating how to define the Commission for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be include in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was determined that there are no component units of the Iron River Housing Commission, but the Commission is a component unit of the City of Iron River, Michigan.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

##### BASIS OF PRESENTATION

The Commission presents its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34.

##### Government-Wide Financial Statements:

The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows display information about the Commission as a whole. They include all business-type activities of the Commission. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

## **IRON RIVER HOUSING COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2005

(Continued)

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **BASIS OF PRESENTATION (Continued)**

###### **Proprietary Fund**

Proprietary Funds are used to account for operations, (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

##### **MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

###### **Measurement Focus:**

The government-wide Statement of Net Assets, Statement of Activities, and the Statement of Revenues, Expenses and Change in Net Assets are presented using the economic resource measurement focus as defined below.

- a. The Commission utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported.

###### **Basis of Accounting:**

The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and Statement of Cash Flows are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

As allowed by GASB Statement No. 20, the Commission's business-type activity follows all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.



## IRON RIVER HOUSING COMMISSION

### NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(Continued)

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### ASSETS, LIABILITIES AND NET ASSETS

- a. Cash and Equivalents – The Commission's cash and cash equivalents, as reported in the Statement of Cash Flows and the Statement of Net Assets, are considered to be cash on hand, demand deposits, and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.
- c. Due to and Due From Other Programs – Interprogram receivables and payables arise from interprogram transactions and are recorded by all funds affected in the period in which transactions are executed.
- d. Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	10-40 years
Furniture and other equipment	5-10 years

The Commission has adopted a capitalization policy for capital assets of \$500 per item.

- e. Compensated Absences - It is the Commission's policy to permit employees to accumulate a limited amount of earned but unused sick leave and vacation days, which will be paid to employees upon separation from the Commission. The cost of vested sick leave and vacation days are recognized as an expense as earned by the employees.
- f. Equity Classification

Government-Wide Statements:

Equity is classified as net assets and displayed in two components:

1. Invested in capital assets – Consists of capital assets, net of accumulated depreciation.



## **IRON RIVER HOUSING COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2005

(Continued)

#### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **ASSETS, LIABILITIES AND NET ASSETS (Continued)**

2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

##### **REVENUES AND EXPENSES**

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. Expenses are classified by operating and nonoperating and are subclassified by function, such as salaries, supplies, and contracted services.

##### **OTHER SIGNIFICANT ACCOUNTING POLICIES**

###### **Interprogram Activity:**

As a general rule, the effect of activity between programs has been eliminated from the government-wide statements.

The transfers of cash between the various Authority programs are reported separately from revenues and expenses as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing program.

Interprogram receivables and payables are eliminated from the Statement of Net Assets.

###### **Budgets and Budgetary Accounting:**

Budgets are adopted on a basis prescribed or permitted by the Department of Housing and Urban Development. All annual appropriations lapse at fiscal year end. The Commission follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Director submits to the Board a proposed operating budget for the fiscal year commencing on January 1<sup>st</sup>. The operating budget includes proposed expenses and the means of financing them. Prior to December 31<sup>st</sup>, the budget is legally adopted by Board resolution.
2. Formal budgetary integration is employed as a management control device during the year.
3. The budget has been amended. Supplemental appropriations were made during the year with the last one approved prior to December 31<sup>st</sup>.



## IRON RIVER HOUSING COMMISSION

### NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(Continued)

#### **NOTE B - CASH AND INVESTMENTS**

##### Cash and Equivalents

The Commission's cash and equivalents, as reported in the Statement of Net Assets, consisted of the following:

Petty cash	\$ 50
Checking accounts	26,931
Savings and money markets	15,000
Certificates of deposit	<u>7,554</u>
<b>TOTAL</b>	<b><u>\$ 49,535</u></b>

*Custodial credit risk.* Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. As of December 31, 2005, the Commission's cash and equivalents were not exposed to credit risk, due to them being fully insured.

##### Investments

The Commission's investments, as reported in the Statement of Net Assets, consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>(Investment Maturities in Years)</u>	
		<u>Less Than 1 Year</u>	<u>1-5 Years</u>
Certificates of Deposit	<u>\$148,606</u>	<u>\$120,000</u>	<u>\$28,606</u>

Investments are recorded at fair market value, which is based on quoted market prices.

Michigan statutes authorize the Commission to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposit, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days of date of purchase, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

*Custodial credit risk.* Custodial credit risk is the risk that in the event of a bank failure, the Commission's investments may not be returned. As of December 31, 2005, the Commission held investments in excess of FDIC insurance limits in the amount of \$5,000 which were uninsured and uncollateralized.

## IRON RIVER HOUSING COMMISSION

### NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(Continued)

#### NOTE B - CASH AND INVESTMENTS (Continued)

*Interest Rate Risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Commission's investments. State law limits the allowable investments as described above. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* Credit risk is the risk that an issuer or other party to an investment will not fulfill its obligations. The Commission has no investment policy limiting its investments in excess of state law on investment credit. Ratings are not required for the Commission's investments outlined above. The Commission's investments are in accordance with statutory authority.

*Concentration of Credit Risk.* The Commission places no limit on the amount the Commission may invest in one issuer. However, the Commission is required to have all funds in excess of insured amounts to be collateralized. The Commission's investments and balances are with the following financial institutions:

Miners State Bank, Iron River, MI	\$ 58,606
Wells Fargo, Iron River, MI	<u>90,000</u>
Total	<u>\$148,606</u>

#### NOTE C - CAPITAL ASSETS

A summary of capital assets as of December 31, 2005 is as follows:

	Balance 1/1/05	Additions	Deletions	Balance 12/31/05
Land and improvements	\$ 56,014	\$ -	\$ -	\$ 56,014
Building and improvements	858,314	56,411	(4,027)	910,698
Equipment	<u>46,844</u>	<u>1,713</u>	<u>-</u>	<u>48,557</u>
	961,172	<u>\$ 58,124</u>	<u>\$ (4,027)</u>	1,015,269
Accumulated depreciation	<u>(643,346)</u>	<u>\$ (32,311)</u>	<u>\$ 4,027</u>	<u>(671,630)</u>
Net capital assets	<u>\$ 317,826</u>			<u>\$ 343,639</u>

Depreciation expense for the year was \$32,311.

## **IRON RIVER HOUSING COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2005

(Continued)

#### **NOTE D - RISK MANAGEMENT**

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

#### **NOTE E - USE OF ESTIMATES**

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **NOTE F - VULNERABILITY DUE TO CERTAIN CONCENTRATIONS**

The Commission is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. Total revenues for the year ended December 31, 2005 totaled \$150,349 of which \$71,010 or 47.2% was from HUD subsidies and grants.

The operations of the project are subject to rules and regulations of HUD. These rules and regulations are subject to change. Such changes may occur with short notice and could create a lack of funding to pay for operational related costs, including the additional administrative burden to comply with the changes.

#### **NOTE G - CONTINGENCIES**

A Civil Suit was filed against the Commission during November 2005 claiming that the Commission had denied an applicant housing based upon age discrimination. As of December 31, 2005, the suit was still pending and had no action taken from either party. The lawsuit was settled during 2006 in favor of the Commission.



**SUPPLEMENTAL  
INFORMATION**

# IRON RIVER HOUSING COMMISSION

## **FINANCIAL DATA SCHEDULE Proprietary Fund**

December 31, 2005

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
<u>ASSETS</u>				
CURRENT ASSETS:				
Cash:				
111	Cash - unrestricted	\$ 43,018	\$ -	\$ 43,018
114	Cash - tenant security deposits	6,517	-	6,517
100	Total cash	49,535	-	49,535
Accounts and notes receivables:				
129	Accrued interest receivable	852	-	852
120	Total receivables, net of allowances for doubtful accounts	852	-	852
Other current assets:				
131	Investments	148,606	-	148,606
142	Prepaid expenses	5,274	-	5,274
150	TOTAL CURRENT ASSETS	204,267	-	204,267
NONCURRENT ASSETS:				
Fixed assets:				
161	Land	35,604	-	35,604
162	Buildings	914,725	-	914,725
163	Furniture, equipment & machinery - dwellings	19,193	-	19,193
164	Furniture, equipment & machinery - administration	25,337	-	25,337
165	Leasehold improvements	20,410	-	20,410
166	Accumulated depreciation	(671,630)	-	(671,630)
160	Total fixed assets, net of accumulated depreciation	343,639	-	343,639
180	TOTAL NONCURRENT ASSETS	343,639	-	343,639
190	TOTAL ASSETS	\$ 547,906	\$ -	\$ 547,906

See accompanying notes to financial statements

ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS



**IRON RIVER HOUSING COMMISSION**

**FINANCIAL DATA SCHEDULE  
Proprietary Fund**

December 31, 2005

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>				
LIABILITIES:				
CURRENT LIABILITIES				
312	Accounts payable ≤ 90 days	\$ 6,054	\$ -	\$ 6,054
321	Accrued wage / payroll taxes payable	244	-	244
333	Accounts payable - other government	3,536	-	3,536
341	Tenant security deposits	6,517	-	6,517
310	TOTAL CURRENT LIABILITIES	16,351	-	16,351
350	TOTAL NONCURRENT LIABILITIES	-	-	-
300	TOTAL LIABILITIES	16,351	-	16,351
<b><u>NET ASSETS</u></b>				
508.1	Investment in capital assets, net of related debt	343,639	-	343,639
512.1	Unrestricted net assets	187,916	-	187,916
513	TOTAL NET ASSETS	531,555	-	531,555
600	TOTAL LIABILITIES AND NET ASSETS	\$ 547,906	\$ -	\$ 547,906

See accompanying notes to financial statements



# IRON RIVER HOUSING COMMISSION

## FINANCIAL DATA SCHEDULE

### Proprietary Fund

For the Year Ended December 31, 2005

Line Item #	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	TOTAL
<u>REVENUES</u>				
703	Net tenant rental revenue	\$ 74,028	\$ -	\$ 74,028
704	Tenant revenue - other	40	-	40
705	Total tenant revenue	74,068	-	74,068
706	HUD PHA grants	36,456	34,554	71,010
711	Investment income - unrestricted	4,598	-	4,598
715	Other revenue	673	-	673
700	TOTAL REVENUE	115,795	34,554	150,349
<u>EXPENSES</u>				
Administrative:				
911	Administrative salaries	14,401	-	14,401
912	Auditing fees	1,500	-	1,500
914	Compensated absences	(285)	-	(285)
915	Employee benefit contributions- administrative	9,377	-	9,377
916	Other operating- administrative	10,605	-	10,605
	Total Administrative	35,598	-	35,598
Tenant services:				
924	Tenant services - other	737	-	737
Utilities:				
931	Water	18,898	-	18,898
932	Electricity	6,722	-	6,722
933	Gas	13,052	-	13,052
	Total Utilities	38,672	-	38,672
Maintenance:				
941	Ordinary maintenance and operations - labor	10,607	-	10,607
942	Ordinary maintenance and operations - materials & other	1,947	-	1,947
943	Ordinary maintenance and operations - contract costs	21,277	-	21,277
945	Employee benefit contributions- ordinary maintenance	872	-	872
	Total Maintenance	34,703	-	34,703

See accompanying notes to financial statements



# IRON RIVER HOUSING COMMISSION

## **FINANCIAL DATA SCHEDULE Proprietary Fund**

For the Year Ended December 31, 2005

<u>Line Item #</u>	<u>Account Description</u>	<u>Low Rent Public Housing</u>	<u>Public Housing Capital Fund Program</u>	<u>TOTAL</u>
General expenses:				
961	Insurance premiums	4,070	-	4,070
963	Payments in lieu of taxes	3,535	-	3,535
	Total General Expenses	<u>7,605</u>	<u>-</u>	<u>7,605</u>
969	TOTAL OPERATING EXPENSES	<u>117,315</u>	<u>-</u>	<u>117,315</u>
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	<u>(1,520)</u>	<u>34,554</u>	<u>33,034</u>
972	Casualty losses - non capitalized	182	-	182
974	Depreciation expense	<u>32,311</u>	<u>-</u>	<u>32,311</u>
900	TOTAL EXPENSES	<u>149,808</u>	<u>-</u>	<u>149,808</u>
Other financing sources (uses)				
1001	Operating transfers in	34,554	-	34,554
1002	Operating transfers out	-	(34,554)	(34,554)
1010	Total other financing sources (uses)	<u>34,554</u>	<u>(34,554)</u>	<u>-</u>
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	<u>\$ 541</u>	<u>\$ -</u>	<u>\$ 541</u>
MEMO account information				
1103	Beginning equity	\$ 531,014	\$ -	\$ 531,014
1104	Prior Period Adjustments, Equity Transfers	\$ -	\$ -	\$ -
1120	Unit months available	372	-	372
1121	Number of unit months leased	327	-	327

See accompanying notes to financial statements

ANDERSON, TACKMAN  
& COMPANY, P.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Commissioners  
Iron River Housing Commission  
Iron River, Michigan

We have audited the financial statements of the business-type activities of the Iron River Housing Commission as of and for the year ended December 31, 2005, which collectively comprise the Iron River Housing Commission's basic financial statements, and have issued our report thereon dated September 11, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Iron River Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Iron River Housing Commission in a separate letter dated September 11, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Iron River Housing Commission's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Iron River Housing Commission in a separate letter dated September 11, 2006.

This report is intended solely for the information of the Board of Commissioners, management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than those specified parties.

*Anderson Tackman & Co. PLLC*

ANDERSON, TACKMAN & COMPANY, PLC  
Certified Public Accountants  
Iron Mountain, Michigan

September 11, 2006



**ANDERSON, TACKMAN & COMPANY, P.L.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

*A Regional Firm with Offices in Michigan and Wisconsin*

Principals - Iron Mountain:  
L. Robert Schaut, CPA  
David J. Johnson, CPA  
Shane M. Ellison, CPA

Member of:  
Private Companies Practice Section  
American Institute of Certified  
Public Accountants

September 11, 2006

Board of Commissioners  
Iron River Housing Commission  
Iron River, Michigan

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Iron River Housing Commission for the year ended December 31, 2005, we considered the entities internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated September 11, 2006, on the financial statements of the Iron River Housing Commission.

1. During the review of disbursements it was noted that vendor invoices were not cancelled upon payment. Additionally, a vendor invoice for one check could not be located.

Recommendation

The Commission should have policies and procedures in place that requires it to effectively cancel its invoices once they are paid. This could be done by either writing "Paid" or stamping "Paid" on each invoice along with the check number and date. In addition, it is imperative that there is a supporting invoice or documentation for each check of the Commission.

2. During the review of tenant files it was noted that third-party support for income items could not be located in two tenant files.

Recommendation

The Commission should establish policies and procedures that requires third-party support for all income and deduction items during the income certification calculation of all tenants.

3. During the audit it was noted that 1099-Miscellaneous forms were not issued to vendors in which the Commission contracted services in accordance with Internal Revenue Service requirements.

Recommendation

The Commission should issue 1099-Miscellaneous forms to vendors per the 1099-Miscellaneous form instructions, at the end of every calendar year, that they have contracted services from.

4. During the review of cash and investments it was noted that although the Commission had depository agreements in place with the banks it does business with, the Commission's funds were not fully collateralized as required by HUD.

Recommendation

The ACC contract with HUD states that the Commission is required to have depository agreements signed by all financial institutions it does business with. The depository agreement states that the financial institution will insure any of the Commission's funds that exceed \$100,000. Although the Commission had depository agreements signed with each of its banks, it did not follow-up with them to verify that they had those funds in excess of \$100,000 insured. At December 31, 2005, the Commission had funds in excess of insured amounts totaling \$5,000. The Commission should require its banks to provide documentation of collateral at a minimum on a quarterly basis. It is imperative that the Commission monitor its cash and investments continuously to verify that the collateral provided by the banks is adequate throughout the year.

We thank you for the opportunity to be of service. Do not hesitate to contact us if you have any questions. I found your staff to be very cooperative and a pleasure to work with.

Very truly yours,

ANDERSON, TACKMAN & COMPANY, PLC



Shane M. Ellison, CPA  
Principal